

SUBJECT TO RULE OF EVIDENCE 408

CONFIDENTIAL BILLING SETTLEMENT AGREEMENT

This Confidential Billing Settlement Agreement ("Agreement"), dated April 26, 2000, is between U S WEST Communications, Inc. ("U S WEST") and McLeodUSA, Inc. ("McLeodUSA") who hereby enter into this Confidential Billing Settlement Agreement with regard to the following:

RECITALS

1. U S WEST is an incumbent local exchange provider operating in the states of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming.

2. McLeodUSA is a competitive local exchange provider that will soon operate in all fourteen states of U S WEST's operating region.

3. Whereas both U S WEST and McLeodUSA have entered into interconnection agreements pursuant to the federal Telecommunications Act of 1996 ("Act"), under Section 251 and 252 of that Act, and those agreements have been approved by the appropriate state commissions where those agreements were filed pursuant to the Act. U S WEST and McLeodUSA operate under those agreements in certain states, as well as various state and federal tariffs.

4. McLeodUSA has intervened in the U S WEST/QWEST merger proceedings that have been or are being conducted by several states within U S WEST's 14-state region, including Arizona, Minnesota, Montana, Utah, Washington and Wyoming.

5. Disputes between the parties have arisen in a number of states under

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both the interconnection agreements and tariffs regarding a number of billing issues, including nonblocked Centrex service, subscriber list information charges, reciprocal compensation and interim pricing.

6. In an attempt to finally resolve those issues in dispute, including McLeodUSA's opposition to the merger, and avoid delay and costly litigation, the parties voluntarily enter into this Confidential Billing Settlement Agreement to resolve all disputes, claims and controversies between the parties, as of the date of this Agreement that relate to the matters addressed herein and release all claims related to those matters.

#### CONFIDENTIAL BILLING SETTLEMENT AGREEMENT

1. In consideration for McLeodUSA's withdrawal from the merger dockets, and within five (5) business days after McLeodUSA has withdrawn its opposition to the merger in all states and dismissed its pending FCC complaint regarding subscriber list information charges, U S WEST will pay McLeodUSA \$4.2 million to resolve the nonblocked Centrex service and subscriber list information billing disputes. The form of payment will consist of bill credits (if payment has not been made) or cash payments to McLeodUSA.

2. Effective upon merger closure and subject to the additional terms described below, U S WEST will pay McLeodUSA \$25.5 million to resolve miscellaneous billing disputes. The form of payment will consist of a cash payment to McLeodUSA, payable within five (5) business days following merger closure.

a. Nonblocked Centrex Service: Subject to McLeodUSA's withdrawal from the merger dockets and dismissal of its FCC complaint, McLeodUSA and U S WEST agree

that upon payment to McLeodUSA of the \$4.2 million described in paragraph 1, all disputed Centrex related charges incurred through March 31, 2000 have been fully resolved and all claims for such charges are released. Effective immediately, for Centrex service charges incurred on a going-forward basis, the parties will continue to negotiate, in good faith, a business-to-business resolution.

b. Subscriber List Information Charges: Subject to McLeodUSA's withdrawal from the merger dockets and dismissal of its FCC complaint, U S WEST and McLeodUSA agree that upon payment to McLeodUSA of the \$4.2 million described in paragraph 1, all disputed amounts incurred through March 31, 2000 have been fully resolved and all claims for such charges are released. McLeodUSA agrees to immediately dismiss its pending FCC complaint regarding subscriber list information charges. Effective immediately, on a going-forward basis, McLeodUSA will pay the \$.04 (per listing for initial load) and \$.06 (per listing for updates) rates for subscriber list information or such other final rates as may be established by any cost docket proceedings or rates the parties may negotiate, in good faith, on a business-to-business basis. Both parties reserve the right to participate fully in future rate determination proceedings.

c. Compensation for Traffic Exchange: Upon payment to McLeodUSA of the \$4.2 million described in paragraph 1, in all existing and future states, for the period of March 1, 2000 through December 31, 2002, the parties agree to immediately amend their existing interconnection agreements to change the reciprocal compensation terms from a usage-based system to a "bill and keep" arrangement for local and internet-related traffic, and to incorporate such a bill and keep arrangement into any future

interconnection agreements in any of U S WEST's fourteen states. Subject to merger closure, both parties agree not to bill usage to one another in any existing or future state between March 1, 2000 and the date of merger closure. However, in the event that the merger between U S WEST and QWEST does not close, U S WEST will retroactively bill McLeodUSA for the true-up for reciprocal compensation for usage through February 29, 2000 at the appropriate state commission-approved rates. Both parties may bill each other retroactively for the usage not billed between March 1, 2000 and the date on which it is officially announced that the merger will not close, based on appropriate state commission-approved rates or the currently existing interconnection agreement(s). U S WEST and McLeodUSA agree to pay the undisputed portion of such retroactive usage billing at the appropriate state commission-approved rates within five (5) business days of receiving each other's invoices for the same. In addition, if the merger does not close, the parties will immediately amend their existing interconnection agreements accordingly.

d. Interim Pricing: Subject to merger closure and in consideration for the bill and keep arrangement agreed upon above, U S WEST and McLeodUSA agree that all interim rates, except reciprocal compensation rates, will be treated as final and any final commission orders entered in any of the 14 states in U S WEST's territory through April 30, 2000, and on a going-forward basis through December 31, 2002, (except as such orders may relate to reciprocal compensation rates for the period between March 1, 2000 and December 31, 2002—reciprocal compensation is addressed in paragraph 2.c. of this agreement) will be applied prospectively to McLeodUSA, and not retroactively. In addition, U S WEST agrees that this settlement term will apply throughout the terms

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of the parties' existing interconnection agreements. Thus, both Parties agree not to bill each other for any true-ups associated with final commission orders that affect interim prices and release claims for such true-ups.

e. Centrex Service Agreements: For McLeodUSA's five-year Centrex Service Agreements that expire before December 31, 2002, the Parties agree to extend the terms and pricing of those agreements until December 31, 2002.

3. For valuable consideration mentioned above, the receipt and sufficiency of which are hereby acknowledged, McLeodUSA and U S WEST do hereby release and forever discharge the other and the other's associates, owners, stockholders, predecessors, successors, agents, directors, officers, partners, employees, representatives, employees of affiliates, employees of parents, employees of subsidiaries, affiliates, parents, subsidiaries, insurance carriers, bonding companies and attorneys, from any and all manner of action or actions, causes or causes of action, in law, under statute, or in equity, suits, appeals, petitions, debts, liens, contracts, agreements, promises, liability, claims, affirmative defenses, offsets, demands, damages, losses, costs, claims for restitution, and expenses, of any nature whatsoever, fixed or contingent, known or unknown, past and present asserted or that could have been asserted or could be asserted in any way relating to or arising out of the billing disputes/matters addressed herein.

4. The terms and conditions contained in this Confidential Billing Settlement Agreement shall inure to the benefit of, and be binding upon, the respective successors, affiliates and assigns of the Parties.

5. McLeodUSA hereby covenants and warrants that it has not assigned or

transferred to any person any claim, or portion of any claim which is released or discharged by this Confidential Billing Settlement Agreement.

6. The Parties expressly agree that they will keep the substance of the negotiations and or conditions of the settlement and the terms or substance of this Confidential Billing Settlement Agreement strictly confidential. The parties further agree that they will not communicate (orally or in writing) or in any way disclose the substance of negotiations and/or conditions of the settlement and the terms or substance of this agreement to any person, judicial or administrative agency or body, business, entity or association or anyone else for any reason whatsoever, without the prior express written consent of the other party unless compelled to do so by law. It is expressly agreed that this confidentiality provision is an essential element of this Confidential Billing Settlement Agreement. The parties agree that this Confidential Billing Settlement Agreement and negotiations, and all matters related to these two matters, shall be subject to the Rule 408 of the Rules of Evidence, at the federal and state level.

7. In the event either Party has a legal obligation which requires disclosure of the terms and conditions of this Confidential Billing Settlement Agreement, the Party having the obligation shall immediately notify the other Party in writing of the nature, scope and source of such obligation so as to enable the other Party, at its option, to take such action as may be legally permissible so as to protect the confidentiality provided for in this agreement.

8. This Confidential Billing Settlement Agreement constitutes the entire agreement between the Parties and can only be changed in a writing or writings executed by both of the Parties. Each of the Parties forever waives all right to assert

that this Confidential Billing Settlement Agreement was a result of a mistake in law or in fact.

9. This Confidential Billing Settlement Agreement shall be interpreted and construed in accordance with the laws of the State of Colorado, and shall not be interpreted in favor or against any Party to this agreement.

10. The Parties have entered into this Confidential Billing Settlement Agreement after conferring with legal counsel.

11. If any provision of this Confidential Billing Settlement Agreement should be declared to be unenforceable by any administrative agency or court of law, the remainder of the Confidential Billing Settlement Agreement shall remain in full force and effect, and shall be binding upon the Parties hereto as if the invalidated provision were not part of this Confidential Billing Settlement Agreement.

12. Any claim, controversy or dispute between the Parties in connection with this Confidential Billing Settlement Agreement shall be resolved by private and confidential arbitration conducted by a single arbitrator engaged in the practice of law, under the then current rules of the American Bar Association. The Federal Arbitration Act, 9 U.S.C. §§ 1-16, not state law, shall govern the arbitrability of all disputes. The arbitrator shall only have the authority to determine breach of this agreement, but shall not have the authority to award punitive damages. The arbitrator's decision shall be final and binding and may be entered in any court having jurisdiction thereof. Each party shall bear its own costs and attorneys' fees and shall share equally in the fees and expenses of the arbitrator.

13. The Parties acknowledge and agree that they have a legitimate billing

dispute about the issues described in this Confidential Billing Settlement Agreement and that the resolution reached in this agreement represents a compromise of the Parties' positions. Therefore, the Parties agree that resolution of the issues contained in this agreement cannot be used against the other Party.

14. This Confidential Billing Settlement Agreement may be executed in counterparts and by facsimile.

IN WITNESS THEREOF, the Parties have caused this Confidential Billing Settlement Agreement to be executed as of this day, 28<sup>th</sup> of April 2000.

McLeodUSA, Inc.

By: [Signature]

Title: PRESIDENT

Date: 4/28/2000

U S WEST Communications, Inc.

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

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McLeodUSA, Inc.

By: [Signature]

Title: PRESIDENT

Date: 4/28/2000

U S WEST Communications, Inc.

By: [Signature]

Title: President - Wholesale Mkts

Date: 4/28/00

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